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PROCEEDINGS OF A SEMINAR ON

Strengthening the Marketing Position of Milk Producers

Cooperative Extension Service
The Ohio State University

NOVEMBER, 1968

FOREWORD

The on-going programs of milk marketing cooperatives, with their emphases on marketing efficiency and bargaining strength, are continually being challenged by new ideas and new courses for action in the marketplace. Among the several priority considerations at this time are bargaining, price policy, standby pool arrangements, control of hauling, and Federal market order consolidations.

In order to consider these matters in more detail, producer organizations in Ohio, including the several member cooperatives of the Ohio Milk Producers Federation together with the Ohio Farm Bureau Federation, and in cooperation with The Ohio State University, staged a two day seminar, September 19 and 20, 1968, directed at getting better informed about and evaluating the five designated problem areas. The formal aspects of the seminar are reported in this proceedings.

In 1966 and 1967, similar seminars were held in which the non-member problem and the merger question respectively were analyzed in detail.

The Planning Committee for this third seminar in the series included Donald Zehr, Central Ohio Cooperative Milk Producers Association; William McNutt and Sam Cashman, Ohio Farm Bureau Federation; and Robert Jacobson, The Ohio State University.

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INTRODUCTION

S. C. Cashman
Vice President
Commodity Services
The Ohio Farm Bureau Federation

Welcome to the third seminar co-sponsored by Farm Bureau and the Ohio Milk Producers Federation.

The stated purpose of this seminar is two-fold:

1. To provide an opportunity for the leadership of these two organizations to become acquainted and thus to be able to communicate more effectively one with the other.

2. To explore together and in some depth one or two of the most important problems facing dairymen. You will note the two which the program committee identified for this conference are: bargaining, and the expansion and maintenance of milk markets.

Because of the overlapping membership of these two organizations, close cooperation and coordination of programs and activities are important to the membership and the effectiveness of the organizations. Our record of working together, in legislation, membership acquisition, and publication of information, in the last several years, is tangible evidence of what can be done when there is good cooperation.

We believe the Seminar is an important vehicle to help insure continuation of this kind of a working relationship. I would like to recognize the other members of the program committee-- Dr. Jacobson and Don Zehr. Also Bill McNutt who has met with the committee on several occasions. On their behalf, I would like to thank all of you who are assuming some responsibility for the conduct of this meeting; the chairmen, speakers, discussion leaders, etc. With your enthusiastic participation, I'm sure this will be the best seminar yet.

THE REVOLUTION IN AGRICULTURE AND THE CHALLENGE TO AGRICULTURAL LEADERSHIP

Thomas T. Stout
Department of Agricultural Economics
and Rural Sociology
The Ohio State University

Most of us are not acutely concerned about the agriculture of twenty years from now and, indeed I am not even prepared to talk about it. It is a long way off; certainly too far into the future to forecast with any expectation of real accuracy. Perhaps because of this we often are inclined to dismiss the future as imponderable and to discount the many indicators of change that appear like signposts along our present paths.

We are aware that agriculture is changing rapidly. We are not always aware that agriculture is changing not only physically and economically, but socially as well. The significance of rapid change over the next ten or twenty years is that some of that change must occur next year; some of it is occurring now. The things we see in the wind today probably are reliable heralds of central tendencies for the future.

Most of us really are not aware how fast all this change has come upon us and, almost always, our most carefully laid plans and strategies for the future of agriculture prove in retrospect to have been grossly conservative. For example, in June, 1955, at a time when there were 5.2 million farms in the United States, Fortune Magazine published a major article which assessed the agriculture of 1980. The article speculated that by that date, 25 years later, there would be only 4.2 million farms in the country. But by the time 10 of those 25 years had elapsed, the number of farms already was reduced to 3.2 million. Of course, a change in census definition occurred in the interim, but it is true nevertheless that the article forecast an 18 percent reduction in farms on the basis of the old definition. What occurred, based on the current definition, was a 33 percent reduction in 10 years, with the expected 18 percent reduction occurring in the first five of those twenty-five years.

What else happened during that ten-year period? As I recite a few of the developments, consider whether it might be legitimate to project this rate of change for another ten years -- to 1975 -- even though the trends of the last ten year period were moderated somewhat in the second five-year half.

The value of all farm products sold increased 43 percent. The value of products sold per farm rose 118 percent. The value of land and buildings per farm was up 186 percent; value per acre climbed 74 percent. One out of four cash grain farms ceased to exist. One of every three dairy farms ceased to exist. Nearly half the poultry farms and more than two out of three cotton farms ceased to exist. Average farm size increased 45 percent, and the only farms that increased in number were those of 500 acres or more-- up ten percent. Farms of lesser size decreased between six percent (260-499 acres) and 44 percent (under 100 acres). Farms selling $40,000 or more in products increased 39 percent in the five years, 1960-1965, and those realizing sales of $20--39,999 rose 23 percent. All others decreased drastically.

Generally, these trends were more moderate for the Central Cornbelt states of Indiana, Illinois and Iowa, with two striking exceptions. Whereas the national increase in farms with sales of $40,000 or more was up 39 percent, this three-state area increased 59 percent. While national averages registered a ten percent increase in farms over 500 acres, these Cornbelt states experienced a 51 percent increase. Ohio changes were even greater, with corresponding increases of 82 percent and 78 percent, but fewer farms were involved.

Where does this really put modern agriculture today? For one thing, it could be argued that already we have more severe concentration ratios in agriculture today than in most industries where concentration among dominant leaders causes concern among observers. Yes, the top four food retailing firms had 20 percent of the retail grocery sales in 1964, and those sales occurred in only 3.6 percent of total retail grocery stores. But also in 1964, the top 3.4 percent of U.S. farms ($60,000 or more in sales) realized what appears to be about 30 percent of total sales. The four largest meat packers did not do as well in 1964, nor did the four largest firms in fluid milk, prepared animal feeds, or bread and related products.*

Now we cannot imagine the future simply by projecting the changes of the past. To do so is to assume that nothing new will be learned; no changes in social attitudes and consequent policies will occur; that a stagnant social and economic structure will simply be carried along by its own momentum. But for the sake of brevity and startling effect, I propose to do just that. And you may interpret the result by supposing that the projections will occur unless something new is learned, unless new policies do reflect changing social ideas, and our socio-economic structure does change with something more than simple momentum.

Another ten years like the last would bring us by 1975 to this: Farm sales will be a 50 billion dollar industry (in 1965 dollars). The average farm will generate $25,000 to $35,000 in sales annually, but the average farm will exceed 500 acres. Fifteen to 20 percent of all farms will be larger than average (larger than 500 acres), and some of them will be dandies, and 80-85 percent will be below average in size and plagued with low income problems. We will have perhaps 2.0 million farms, and less than one million really commercial farms. Average per acre value of land and buildings will approximate $250 for the nation, but in the Central Cornbelt it will more closely approach $550. Average farm real estate investment in the U.S. will be about $130,000 per farm, but in the Central Cornbelt it should be more like $280,000. We could be left with something like 300,000 cash grain farms and as few as 50,000 farms that each produce more than $40,000 in annual sales. To facilitate the rate of change these figures suggest would require nearly 450 farm title transfers every business day of every year during the entire 10 year period, 1965-1975.

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* Census of Agriculture and Census of Manufacturing

We are obliged, it seems to ask ourselves some questions: What kind of distribution in farm size are we moving toward when 15 percent of the farms are larger than average and 85 percent are smaller? What will it mean to agricultural policy when less than 3 percent of farms dominate the markets with perhaps 50 percent of output and the great majority of farms will be severely pressed to provide a meager livelihood? In a day of urgent concern about urban poverty, what will be the dimensions of an overshadowed rural poverty? Who will finance the farms of the future at a quarter or a third of a million dollars for the average farm, and how will title to farm land be passed along? What will the management demands be like for the great commercial enterprises and who will provide the training to meet those demands? Who will the owners of farmland be and what kinds of uses might in the future be made of vast stretches of agricultural land that fail to survive the rigors of agricultural competition?

It seems that the agriculture of ten or twenty years from now requires of us that we make some hard decisions now in order that we may direct the course of events to come. Clearly, our alternative is to be directed by the forces of change. Our hand is called. We assert our claims to leadership now, or concede that events themselves have taken control and leave little option to agricultural leadership but to drift with the current and try to keep afloat.

I see no apparent alternative for agricultural organization, decision-making and control under existing or proposed policies that are likely to develop other than a continued rapid evolution toward further commercialization in agriculture. Or more emphatically, I think future developments may amount more to a revolution than an evolution. An evolution, you see, is rather a deliberate, methodical, planned development that leads to some definite end. But a revolution is an explosive and total change with unknown ends that lie beyond the planning horizons, with outcomes that reshape the social structure because they are incompatible with the conventional system. Therefore, I think this revolution in agriculture brings not further commercialization, but industrialization instead. When we speak of commercialized agriculture, we mean little more than business-like operations as opposed to, say, a way of life. But Webster's <u>industrialism</u> is closer to what I have in mind: "Social organization in which industries, especially large-scale industries, are dominant." The important difference here, it seems to me, is as Webster points out, that industrialization cannot be defined without reference to its impact on <u>social organization</u>. This is why the impending changes for agriculture achieve proportions of a revolution rather than simple evolution. We stand at a threshhold of change beyond which not just the economics of agriculture are affected, but the social organization as well. We are called upon not to make judgments about the simple economics of agriculture, but to make more fundamental appraisals and much more difficult judgments about just what sort of social organization we anticipate as well. Certainly, the leadership of agriculture faces challenging times; seldom have greater demands been placed before them to make critical decisions of more fundamental importance or with more far-reaching consequences. Indeed, it seems to me that to plan the next simple economic move is to do little more than drift with the current without determining whether the current will carry us in fact to the destination we desire.

I believe we are on the threshhold of a revolutionary change in agriculture. I mean revolutionary in the literal sense that revolutions leave earlier forms unrecognizable and cause persistence in customary patterns of thought and action to be untenable. I think we are entering upon a period of fundamental reappraisal for agriculture, a period in which difficult and unprecedented questions will be asked about the proper social as well as economic role of agriculture, and a period in which changing attitudes, values and social requirements will require the development of radically altered programs to properly realign a mutated agriculture in a mutated social setting. Conventional economic planning is no longer enough. It is almost petty. Much more is required of leadership today because agriculture has reached a point where further compromise between economic performance and social organization is getting extremely unlikely while the necessity for some kind of trade-off, one for the other, becomes much more necessary.

Historically, agriculture has been regarded both as the embodiment of some traditional and prized social institutions and as an economic machine, the performance of which has been judged mostly by its ability to produce an abundance of food and fiber. Agricultural policy has attempted to foster <u>each</u> of these parts of agriculture, although they are fundamentally conflicting characteristics. But as both the society and the economy of the nation become more complex, it becomes more difficult to achieve a compromise between the two, and each threatens to advance only at the expense of the other. Increased agricultural productivity strains the institutional framework and undermines its foundations. Preservation of cherished traditions impairs agricultural productivity.

And this is the crux of the thing. We have reached the point where we are confronted with radical economic change which will demand radical social reorganization. We cannot have the new economic organization of agriculture and keep the old social organization. They will not live together in the same house. The new economics of agriculture makes financial and management demands that few aspirants will be able to meet. The new agriculture will provide opportunity for only the most vigorous survivors and the most aggressive newcomers. The new agriculture will have little sympathy for the family farm, proprietorship, independence, self-sufficiency, oral contract, free entry and exit, competitive markets, and making the final payment on the mortgage. All these are part of the social character of agriculture. No matter the affection with which they are regarded, they stand in the way of an industrialized agriculture.

Please do not misunderstand me. I am not making a plea for preservation of the social status quo. I am only offering a reminder that it is customary to look both ways before crossing the street. We cannot prove that the social organization of agriculture is even worth preserving. But, therefore, neither can we safely assume that it is not worth preserving. We are called upon to make fundamental reappraisals of what agriculture is supposed to be and what it is supposed to accomplish. Is it simply an economic machine to turn out food and fiber or is it something more? What is to be our proper course of action in order that we may be well assured that we gain something more than we lose?

It is not satisfactory to rebel against an industrialized agriculture just because it threatens something old. But neither is it satisfactory to embrace the new economics of agriculture without a backward glance because it is something new, and popularly regarded as inevitable. Leadership calls for something more than being cheerleader or being first on the bandwagon. Leadership cannot afford the easy luxuries of either polar position. True leadership is neither cheerleader for the staunch traditionalists who genuinely love the social organization of agriculture, nor is it the drum-beating advocate of some new order who cares little the price that those of another view would have to pay. Between the easy extremes lies the much more difficult task of appraisal and assessment of conflicting goals, compromise and commitment to less than everything from opposing benefits, and the determination to make equitable decisions and to accept the consequences. It is the challenging role of leadership to accept this demanding task. Let us hope that it will be <u>agricultural</u> leadership that will assume the burden, for we may be assured that the burden will be assumed -- somewhere.

NEW LEGISLATION FOR AGRICULTURE

C. William Swank
Assistant Executive Vice President
The Ohio Farm Bureau Federation

There is an anxiety in agriculture that is as real as that which pervades the entire economy. Farmers are not satisfied with present prices or conditions. They are apprehensive about the future because it appears that the same economic forces that have kept returns to producers at a low level will continue for the next two decades.

The combined impact of the birth control pill, advancing technology in the U.S., and widespread adoption of modern technology in foreign countries gives further evidence that farmers must find better ways to manage their industry if they are to achieve profits commensurate with their investment, ability and contribution to the economy and society.

The Federal Government is turning its attention to problems of peace and poverty. There is real likelihood that there can be a change in the government farm programs that have been a part of agriculture for nearly 40 years. This can be a victory for the American Farm Bureau Federation which has long advocated an end to the present government programs. It will be a hollow victory if low prices, and the prospect of continued low prices, brings a demand for something that will help bring profit to farmers and ranchers and we are not ready with that something.

Both political parties seem ready to consider legislation in this area. The present administration has suggested the Mondale Bill. Even though it is not acceptable it indicates a willingness. On the CBS television program, "The Nixon Answer," on July 10, Presidential candidate Richard Nixon said the farmers should have bargaining power like other segments of the economy have. Both parties will be seeking proposals that are acceptable to farmers and that can be effective in both the short and long run.

The present AFBF program of providing marketing programs that can effectively deal with this problem is sound. Farmers are running a business. We can increase profits to a more adequate level if we conduct the agricultural industry in a more businesslike manner.

Programs of forward pricing, contract production on specification, and bargaining for contract terms can be a healthy part of the future if farmers are able to achieve an effective and "directive" hand in how these programs are developed. If left to chance, the power to direct this development will not be in the hands of farmers. They are too widely scattered and too numerous to effect these changes without organization. Each farmer is too small to influence the industry by his individual action.

For these and other reasons, we have developed the AAMA and similar state associations to provide members a structure through which they can have an influence on the marketing practices of their industry and can achieve enough bargaining power to insure profitable operations in the farming businesses.

These organized marketing efforts have achieved a limited success in a limited number of commodities. If we are to retain the leadership role in agriculture, Farm Bureau needs to demonstrate its willingness to develop programs to increase profits in the major commodities as well as the specialty crops. These programs must be well enough defined that farmers can react to them and suggest modifications. It is very important that farmers see an acceptable and effective way to achieve this bargaining power if they are to support it.

While most farmers want to see government out of agriculture, they don't reject a proper role of government in making it possible for farmers to have some control and power in their own industry. Farmers want to see the government as a referee in the game of commerce but not a participant. Most of the professional societies in this country use government to a limited degree to help the society improve the economic position of its members. Certainly, labor unions have used government to help achieve the goals of organized labor without having government take over either the management of industry or labor. Indeed, it is the actions of many of these groups plus the inflationary practices of the U.S. Government that contributes to the price-cost squeeze that is so damaging to the profit picture of farmers. A minority of 6% of the population cannot stop the practices of either the labor and professional groups or the U.S. Government. Farmers may be able to use government to achieve the bargaining power to permit agriculture prices and profits to keep up with the rest of the economy.

The reference to professional societies and to labor unions cannot provide a direct analogy for agriculture. Farmers are in business and the economic considerations for agriculture must be business economics. In coping with the problems of bargaining for farmers, we should look for lessons from the experience of other groups that have organized for economic power and improvement.

As evidenced by the table attached, most professional societies represent only half or less of their potential members.1/ Labor unions do not represent all workers but they have been granted powers through government which permit them to have bargaining power that influences all of labor and much of the economy.

There is evidence2/ that in the U.S. and in most countries in the world, half or less of the farmers are members of a general farm organization. While this may present problems to the organization, they need not be insurmountable in achieving effectiveness.

If farmers are to achieve results from organized activity they must:

1. Be recognized by buyers (processors, packers, etc.).

2. Have a way of electing or establishing an official representative for selling the product of an industry in an area. (To be defined)

1/ The Practice of Collective Bargaining. Beal and Wickersham

2/ The Cooperative Systems Approach to Improving Farm Income. Univ. of Wisconsin, 1968 - By Randall E. Torgerson.

3. Be assured that buyers will negotiate in good faith.

4. Keep their industry from being invaded and overproduced.

5. Be free from intimidation when considering the establishment or election of a bargaining association. (Yellow Dog contracts, used by Lawson, possibly others).

6. Be able to elect a different bargaining representative at times, or to be free from any representation.

7. See clearly that their profits will be enhanced by such action.

8. Feel assured that any loss in "freedom" will be more than compensated for in stability of prices and returns, continued share of market, and improvement in his industry.

9. Provide for a means of settling bargaining disputes before a critical planting or breeding is passed or harvest period missed.

10. Move with changes and improvements in technology in addition to a recognition of the efficiencies of scale rather than trying to maintain a status-quo in agriculture.

Suggested Legislation
A Farmer-Buyer Relations Act

I. Declaration of Policy

A healthy agriculture is critical to the well-being of the nation and is basic to a sound economy. Because of rapid changes in technology, the ability of the U.S. farmer to produce has out-run the ability of the U.S. and world markets to absorb this entire production at prices that yield fair and adequate returns to the farmer businessman. It is in the public interest that the basic family farm structure of agriculture be maintained in a healthy and profitable condition in order to assure an adequate supply of food and fibre to the U.S. consumer and provide a reserve production capacity to insure the strategic needs of the nation and its foreign policy.

The purpose of this act is to prescribe the legitimate rights of farmers and buyers of raw agricultural products in their relations regarding the production and flow-to-market of agricultural production for orderly and businesslike commerce and to prevent the interference by either of the legitimate rights of the other, to make clear the rights of farmers to associate themselves into organizations for proper and adequate representation for the collective terms of sale for an identified commodity producing group, and to protect the rights of the public against a loss of proper welfare which may arise in disputes between farmers and buyers in commerce.

II. Definitions

1. Farmers - Producers

2. Buyers

3. Representative

4. Organization

5. Etc.

III. A Farmer-Buyer Relations Board

This board, an agency of the U.S. Government and consisting of five members appointed by the President, with the advice and consent of the Senate------------

Shall carry out the provisions of this act and see that when initiated by either farmers or buyers, the rights of each are protected and that commerce between the two groups can be maintained in a manner consistent with the public interest.

IV. Rights of Farmers

Farmers shall have the right to self-organization, to form, join, or assist farm marketing associations to bargain for the terms of trade for food and fibre, through organizations of their own choosing and to engage in practices and activities for the purpose of marketing an adequate supply of food and fibre for an identified market.

V. Unfair Practices

1. It shall be unfair to interfere with or restrain a farmer in the exercise of the rights guaranteed in Section IV;

2. To interfere with the formation and administration of marketing and bargaining associations;

3. To discriminate in regard to contract buying or any other condition, to reward or punish, in an economic way, a farmer in a way that would tend to influence his action in regard to membership and participation in an association;

4. To fail to grant a business contract, or do business with a farmer, because of his association with, or membership in, a marketing association; and

5. To refuse to bargain in good faith with an organization which represents 60% of the usual producers or suppliers of the raw agricultural products of that plant.

VI. Farmer Organization Responsibilities

1. The duly elected marketing agent for the farmer will have the responsibility of majority representation of all producers supplying the buyer.

2. The marketing agent will have the privilege of handling full-supply contracts with buyers and may negotiate up to 5-year contracts with buyers individually or in associations as an industry.

3. Marketing associations may work with and through bona fide cooperatives controlled by farmers as long as there are no predatory practices used to gain a monopoly position.

4. Marketing associations may work together through common agency agreements, or other legal instruments, to insure compliance with existing cooperative concepts relative to agriculture.

Practical Applications

Farmers producing a commodity that are interested in enhancing the profits of their industry through the action of a marketing association must be able to identify their group by individual or by area.

Emphasis should be given to the usual shippers or sellers to a certain buyer so that forward commitments can be made. Buyers can begin to anticipate their market so that they buy the amount that they can sell at a negotiated price.

By requiring negotiations in good faith, buyers themselves, through business contracts or agreements, will make the adjustments in production necessary to maintain a negotiated price.

The needs for foreign markets and for the U.S. Government for domestic and foreign aid programs should also be anticipated prior to production.

It should be possible through the development of bargaining situations to permit a commodity producing group to plan a marketing strategy for greatest profits. This might mean moderate prices rather than high prices.

The market will still be permitted to function, encouraging the adjustments necessary in agriculture.

While there might be some competition between farmer organizations and commodity groups in the beginning to see which will be the representative for a given commodity in a given area, the organization that is sound and effective should soon be recognized.

A new legislative act which clarifies the legal structure of an agricultural bargaining association is superior to simply continuing to try to adapt this effort under the Capper-Volstead Act, which was not created for this type of cooperative.

A practical relationship should be developed for bargaining with existing farmer cooperatives. They must be required to pay at least the going market price (through negotiations) with savings returned to farmer-owners as before. Without this protection, private buyers would feel the cooperative to have an unfair competitive advantage.

REFERENCE TABLE

Employment in Selected Professional Occupations
And Membership in Related Organizations

Occupation	Employment[a]	Related Organization(s)[b]	Membership[c]
Teachers			
Elementary and Secondary	1,850,000	National Education Association[c]	813,000
		Amer. Federation of Teachers	100,000
College	200,000	Amer. Association of University Professors	62,000
Engineers	1,000,000	Amer. Institute of Electrical and Electronic Engineers[d]	156,500
		Amer. Society of Mechanical Engineers[d]	59,500
		Amer. Society of Civil Engineers[d]	49,000
		Amer. Institute of Aeronautics and Astronautics[d]	36,000
		Amer. Institute of Chemical Engineers[d]	22,000
Registered Engineers	250,000	National Society of Professional Engineers[d]	60,000
Registered Nurses	550,000	American Nursing Association	170,000
Clergymen	300,000	No relevant organization	
Physicians	275,000	American Medical Association	176,000
Lawyers	275,000	American Bar Association	115,000
Dentists	100,000	American Dental Association	100,000
Certified Public Accountants	80,000	American Institute of Certified Public Accountants	48,000

a U.S. Department of Labor, Bureau of Labor Statistics, Occupational Outlook Handbook, 1966-67 Edition, Bulletin No. 1450, pp. 23, 72.

b Frederick G. Ruffner, Jr., R. C. Thomas, Ann Underwood, and H. C. Young (eds), Encyclopedia of Associations, Vol. 1 (Detroit Gale Research Company, 1964).

c NEA membership includes elementary and secondary schoolteachers, college and university professors, administrators, principals, counselors, and others interested in education. Bulk of membership composed of elementary and secondary teachers and administrators.

d Membership includes students.

WHERE WE STAND TODAY IN AGRICULTURAL BARGAINING LEGISLATION

Glen Wagner
Attorney
Ohio Milk Producers Federation

The proposed Mondale Bill, according to my information, has three titles, one of which is now Law, and which we will talk about later. The second part of my remarks will concern the Agricultural Fair Trade Practices Law. Title I of the Mondale Bill, I understand, was drafted by the Farmers Union and their legal counsel, Mr. Brannan, who was a Secretary of Agriculture himself. Title II has to do with the Marketing Agreement Act, and this title would amend that Act to provide for certain additional activities. The Mondale Bill was then put together by the Secretary of Agriculture, and both the Secretary and Senator Mondale did not push it as their bill.

Senator Mondale is not necessarily supporting all parts of the proposal, but it was drafted in an attempt to focus attention on bargaining by various commodity groups. It did have some hearings, which did not develop any great controversy. As I understand it, the Farmers Union was the most outspoken for adopting it, while other organizations do not endorse it but reserve their positions on several items.

Title I is pretty much new ground and sets up a National Agricultural Marketing Board. This is the board that would decide after a petition had been filed or when action had to be taken in a particular commodity. Presumably, the Secretary of Agriculture would take the petition of producers to the Board and they would find for or against it.

Action taken would tend to be in the direction of a referendum among the growers to see whether or not they wanted a marketing committee to negotiate the price in terms of sale. Presumably, if the vote was favorable, there would then be a marketing committee established. Criticism of this particular Title revolved mainly around who was to be on this committee, and what action would be taken against the non-cooperator. I understand, for instance, that the American Farm Bureau testified against it and raised the question about this coercion of the non-cooperator. The sense of Title I was that you would cover the commodity in the same way that a minimum milk price covers all the milk in a market.

There is some feeling that the ASCS Committee could act as the committee on a given commodity, or at least have a hand in the nominations or the initial stages of it. I think it would be helpful if I read you some comments made by the National Milk Producers on the Mondale Bill in their testimony. They stated that any bargaining for dairy farmers under the Marketing Agreement Act of 1937 should be through producer owned cooperative marketing associations. Although the Federation has reservations about the provisions of the Mondale Bill, and did not initiate the proposal, they do believe that if the Marketing Agreement Act is amended to improve the bargaining position of farmers, the amendment should give authorization for qualified cooperative associations or federations of qualified cooperatives, representing more than half of the dairy farmers supplying the market, to be certified by the Secretary to represent and perform marketing services on behalf of all producers supplying the market with milk. The cooperative association or federation of cooperatives would then perform these services instead of the committee specified in the bill, including bargaining for price and other terms of sale.

"We would suggest, however, that any qualified bargaining cooperative association so certified should be required to offer proportionate representation for other qualified associations or federations who desire to participate. As regards Title I of this bill, we suggest that it not be made applicable to milk. Title I would make it very difficult for the milk associations to market on behalf of their members and to represent their dairy farmer members in bargaining for price and other terms of sale."

I think the implication here is that if Title I was in effect and the committee took over, the cooperative association would have lost the authority it has under its contract with the producer. Title I also raises a serious question as to the continued operation of the milk marketing order program, and of the price support program authorized by the Agricultural Act of 1949.

Title II, the extension of Federal orders, appears to be an alternate to Title I rather than a supplement and appears to regulate the same commodities. From the viewpoint of dairymen, the use of marketing orders has been highly successful, even though the Act should be amended to improve its effectiveness. If Title II is enacted to afford additional commodities the benefit of marketing orders, we would recommend that the provisions relating to milk not be changed to such an extent that elected committees of producer representatives would replace the cooperative associations of dairymen now performing that function. The use of elected committees independent of the cooperative already marketing milk would seriously hamper the cooperatives and impede their success.

Now the third part of that bill has been split off and become the law known as the Agricultural Fair Trade Practices bill. This is the bill that some of you in Ohio will remember has some similarity to the rather weak one known as Senate Bill 60. In effect, a processor dealing with producers and buying a commodity such as milk or fruits or crops is prohibited from engaging in what are known as unfair trade practices, such as telling the producer that he cannot belong to a cooperative association. However, the interesting thing about the present statute is the provision which states that the individual contract between the processor and the producer is protected or recognized, and is also subject to protection against any breach or coercion or intimidation between the processor and the producer. California has had a law for some time in that regard, and I understand that it has been fairly successful and has helped protect several commodity groups from discrimination. Recently the Farm Cooperative Service in the Department of Agriculture was designated as the agency to administer the new law.

The crucial question as to what would happen in the case of the independent contract has not been decided, and I think we might profitably discuss that a minute or two. It appears that a milk dealer or company can have a contract with an individual dairy farmer, which would have a stated period of time to require the dealer to buy the milk at a certain price and require the farmer to ship the milk for a certain time and otherwise make his milk available. The question that I think will come up is similar to the case we had in Eastern Ohio with the Lawson Milk Company. Assume that the producer and the cooperative association that he wants to join recognize the legaility of the so-called Yellow Dog Contract between the farmer and the plant and the producer legally cancels that contract and indicates that as soon as that contract is legally cancelled, he is then going to become a member of the cooperative association. What happens if the handler then states he is not going to buy the farmer's milk and doesn't say the reason is because he joined a co-op? Now the question comes up, what if the handler consistently engaged in this practice and it can be shown that he refuses to do business with any farmer who is a member of a cooperative. Is this a violation of the new Federal statute? I think this is the kind of case that will be presented sometime and the decision which will have to be made as to the extent that the individual contract between the processor and the producer is protected by this new statute.

Of course, we could have legislation that would go farther than at present, but it's obvious the inclusion of that dealer-producer contract in the statute weakened the bill to that extent.

The parallel in labor comes to mind. It is an unfair labor practice not to deal with employees who are members of a union. In other words, you have a duty to deal with them and, of course, you also are prevented from any interference in union activity. Now I think that to some extent this Agricultural Fair Trade Practice bill has that provision in it. I think it says the handler is prohibited from interfering with cooperative association activity. In other words, if producers want to organize, they can, but I think at the same time this bill gives some status to an individual producer-dealer contract that it would not otherwise have.

Now, another mention of a bill that is not getting any attention but used to some six to eight years ago, and that is the old Aiken Bargaining Bill, restricted entirely to milk. It merely makes clear there is no violation of the anti-trust laws if producers or groups of producers from cooperatives bargain with handlers or groups of handlers for the terms of sale of their milk. There has been some evidence that the Justice Department looks on any market wide bargaining between any group of handlers and a group of producers as a violation of the anti-trust law, notably in the early Maryland-Virginia cases. The Justice Department did raise the very question that the Maryland-Virginia co-op was bargaining with all the Washington, D.C. processors, but the result of that case was that the court finally held that the Maryland and Virginia co-ops had never really established or agreed on a price, that there was no agreement, and, therefore, the Justice Department's case on that point was not successful. This might indicate that there is a need for that type of bill.

Frankly, with the approval that the Secretary of Agriculture, and to some extent the Justice Department and the Federal Trade Commission, have given to some of this type of bargaining that has taken place in the milk market, I wouldn't think this is the problem that it used to be.

Now a third comment on where we stand on bargaining and that is with reference to the Marketing Agreement Act. I think it is fair to say that when members pay all the bills or undergo all the burdens and expenses, and as a result non-members net more money, that obviously member's bargaining ability is hindered. Therefore, legislative proposals have been made to provide that advertising and promotion and certain services provided by co-ops in a market be taken out of the pool prior to the announcement of the price. In other words, all producers would share these deductions, and any legislation of this type that was approved would help the cooperatives in bargaining. On the other hand, I think that we have to point out that we have possibilities in front of us right now which we probably are not taking advantage of. The facts are that we know some areas of the country are getting together. We have our own Great Lakes Federation in this area, and it is proceeding to be more effective in the market. In other words, there is no need here for additional legislation. It boils down to the willingness on the part of the organized producers to either federate or merge to take care of their problems in a market.

The Federal Trade Commission has just issued an advisory opinion on the formation of three agricultural cooperatives into a non-profit market association. The opinion of the Federal Trade Commission pointed out that the purpose of the Capper-Volstead Act is to permit persons engaged in agricultural pursuits to associate in the collective marketing of their products. Under its provisions, cooperative associations may make contracts or agreements as will effect such purpose and may have marketing agents in common. The Act has been construed as a grant of immunity from the anti-trust laws insofar as collaboration among members of the cooperative association are concerned. This immunity ends at the point where they act by themselves or with other persons not in this category to restrain trade, or otherwise eliminate competition at successive stages in the marketing process. The opinion further advised that the Commission had considered the proposal and was of the opinion that formation of the proposed marketing association by the three cooperatives would not result in violation of Commission statutes if implemented in the manner outlined.

The Commission cautioned, however, that the opinion was limited to the formation of the proposed association only and was not to be construed as approval for any practice which may be predatory, or which may result in unlawful monopolization, or restrain commerce to the extent that prices are unduly enhanced thereby.

The FTC also stated that this opinion did not sanction conspiracy or combinations between this organization and persons not in this category. I would say that this opinion is somewhat favorable in that it highlights the ability and the authority for co-ops to combine now in federations or mergers as long as they all have producer status. I would be very interested now to know who asked for that opinion and from whence that came. It doesn't mention the commodity so it would be very difficult to find out unless we made inquiries to see what the facts were.

One other final comment on where we stand. I understand that the Senate and House have agreed on extension of the Agricultural Act for one more year but have not included the provisions which had to do with the Class I Base Plan or the changes regarding deductions for advertising.

If the Class I Base provisions of the Marketing Act were to be amended, I would expect that many more markets would be interested in the Class I Base Plan because the amendments we drafted and proposed would give much more flexibility, and it seems to me, equity, in a milk market establishing the Class I Base. Class I Base gives the producer a property right and a share of the market, and, therefore, is attractive to many producers and locks in a share of the market to each producer supplying that particular market.

These provisions would obviously tend to give more bargaining power to the association representing producers who supply handlers in such a market. There have been a couple of instances recently where producer associations have established a Class I Base Plan without the Federal order, wherein the association itself announces a plan under which it will distribute the money in the pool. Of course, those have been in existence in times past without Federal order. Michigan had a base plan long before they had a Federal order.

I think what I have said on the big question -- are we on the verge of having a bill which would certify a commodity group or a co-op as the agent for all producers under Federal statute, is that I don't think so. On the other hand, we are going quite rapidly in the direction, where the organized producers, who wish in the milk field to exert themselves through the co-op, can do so. The recent passage of the Agricultural Fair Trade practices bill will further help the organized co-ops against some acts of discrimination by the buyer. Therefore, I think we can ask ourselves which one of these pleasant things that we have now can we use to greater advantage than we have in the past.

IS NATIONAL DAIRY POLICY STRANGLING OUR COMMERCIAL MILK MARKET?

Robert E. Jacobson
Professor
Department of Agricultural Economics
and Rural Sociology
The Ohio State University

The question of whether or not national dairy policy is strangling our commercial milk market is relevant on two counts. First, the commercial milk market, which has been declining on a per capita basis for many years, has dropped off substantially on an aggregate basis for the last couple of years. Second, the purchase program utilized to implement dairy price supports has a direct and substantial effect on the price of all dairy products.

Before we get into some of the details of our dairy price policy, I believe that the topic is of sufficient priority to evaluate the dairy support program in the context of our entire decision-making process. As a preface to such evaluation, Section 201 (c) of Title II of the Agricultural Act of 1949 bears repeating. This section, which is the Dairy Price Support Act, reads as follows:

"The price of whole milk, butterfat, and the products of such commodities, respectively, shall be supported at such level not in excess of 90 per centum nor less than 75 per centum of the parity price therefore as the Secretary determines necessary in order to assure an adequate supply" . . . .

Two or three recent writings are particularly interesting as we evaluate the dairy support program in relation to public decision-making processes. As we review these writings, let us keep in mind the stated purposes of the Agricultural Act of 1949 as they have stood for two decades.

Two of the specific writings I have in mind relate directly to this country's decisions in foreign policy but have a direct parallel to our comparable challenges in agricultural policy. The first quote is taken from George Kennan's recently published memoirs. 1/

"On many occasions, ... I have been struck by the congenital aversion of Americans to taking specific decisions on specific problems, and by their persistent urge to seek universal formulae or doctrines in which to clothe and justify particular actions. We obviously dislike to discriminate. We like to find some general governing norm to which, in each instance, appeal can be taken, so that individual decisions may be made not on their particular merits but automatically, depending on whether the circumstances do or do not seem to fit the norm. We like, by the same token, to attribute a universal significance to decisions we have already found it necessary, for limited and

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1/ Kennan, George F., Memoirs, 1925-1950, Little, Brown and Company, 1967, pp. 322-324.

parochial reasons, to take . . . . Whatever the origins of this tendency, it is an unfortunate one. It confuses public understanding of . . . . issues more than it clarifies it. It shackles and distorts the process of decision-taking. It causes questions to be decided on the basis of criteria only partially relevant or not relevant at all. It tends to exclude at many points the discrimination of judgment and the prudence of language requisite to the successful conduct of the affairs of a great power."

As we digest the implications of this type of an indictment of the public decision process and relate it to dairy policy, let us consider a second recently published statement which also critically analyzes our decision-making in the public sector. Again, the parallel between foreign policy and agricultural (dairy) policy is to be noted. Mr. Vermont Royster, Editor of the Wall Street Journal, provides us with this critique. 2/

> "With but rare exceptions we always seemed to be calculating the short-term consequences of each alternative at every step of the process, but not the long-term consequences."
>
> The remark is one of Bill Moyers', lately staff assistant and press secretary to President Johnson, explaining in an Atlantic Monthly interview how the United States came to its present entanglement in Vietnam. "With each succeeding short-range consequence," he says, "we became more deeply a prisoner of the process." . . . .
>
> "Over the years," Mr. Moyers continues, "in small but steady increments, decisions were made and policies formulated which were eventually almost certain to present some President with the ultimate decision . . ."
>
> What Mr. Moyers offers is a commentary on the decision-making process. It is that past choices, however unseen by the policy makers at the moment, can progressively narrow later choices so that it becomes progressively more difficult for later decision-makers to reverse direction.
>
> As a description of how we came to be mired in Vietnam, Mr. Moyers probably tells it as it was; at least it accords with the history of that unhappy adventure. It therefore suggests some sympathy for President Johnson, or any President for that matter, who must wrestle with accumulated mistakes. But as a commentary on how decisions are made in the highest places it is shocking.
>
> Shocking, but almost surely true. For if you will reflect for a moment on our manifold national problems--political, economic or social--it will occur to you that in almost every case the present dimensions are enlarged by casual decisions made long ago with little effort to look beyond the day's necessities. . . .
>
> All this may be both human and understandable; few of us in our private lives always weigh the long-range consequences of what we want to do today. It is certainly a common proclivity of governments, especially those who know their term of office is not perpetual. One part of the

2/ The Wall Street Journal, July 2, 1968, p. 14.

politician's art is to postpone problems until someone else has to deal with them.

Yet that makes this method of decision on great questions no less terrible, or Mr. Moyers' indictment no less shocking. At home we face nameless calamities and abroad young men are dying, and now we are told that none of this was intended. It was just that no one bothered to look where we were going.

With the best will in the world men cannot anticipate very consequence of their actions; statesmen, like the rest of us, deserve some charity for their mistakes. The shock is less in the mistaken judgments than in the confession that on some past morrow men made such judgments with no thought of tomorrow.

As a final preliminary comment on dairy policy and the decision process, let us look to a recent statement by Geoffrey Shepherd which challenges the very problem definition we concern ourselves with. He writes as follows: 3/ "The original diagnosis of the farm problem as a price problem, leading to an incorrect prescription, is in fact making the patient worse. It is impeding rather than promoting the adjustments needed to cure the actual disease. The price support programs are like cough syrups prescribed for a cough that is caused by tuberculosis rather than by a simple cold. They temporarily relieve the symptoms, but in this case they actually make the patient worse instead of better. They not only leave the real disease untreated; they accelerate its development."

With this kind of a preamble, and hoping that it has challenged some of the inertia of our thinking with respect to the infallibility of the dairy support program, let us get into the direct substance of this discussion. In doing this, let us recall that through the Agricultural Act of 1949, the dairy price policy of this society is set forth, and three problems are implied. The problems implied in Section 201 (c) include price (instability), income (with price used to correct income), and adequacy of supply. The first question confronting us then is -- Are these the basic priority problems in the dairy industry today? By way of saying no, let me cite the following facts currently relevant to our dairy price policy.

In March of this year (1968), Secretary Freeman implemented dairy supports for the 1968-69 marketing year by raising the support level 28 cents to $4.28 per cwt. -- or 89.4 percent of parity. Most people in the producer end of the dairy industry viewed this as a victory for their continuing influence. But in this process, the Secretary made his decision in the face of the following facts:

1. U.S. milk production decreased from 119.9 billion pounds in 1966 to 119.3 billion pounds in 1967.

3/ Shepherd, Geoffrey S., Farm Policy: New Directions, Iowa State University Press, 1964, pp. 34-35.

2. The quantity of milk marketed off farms decreased from 114.4 billion pounds in 1966 to 114.1 billion pounds in 1967.

3. The "all milk wholesale" price increased from \$4.09 in 1965 to \$4.65 in 1966 to \$4.86 in 1967.

4. Commercial milk sales <u>decreased</u> from 115.6 billion pounds in 1966 to 110.8 billion pounds in 1967.

5. Price support purchases increased from 0.6 billion pounds milk equivalent in 1966 to 7.4 billion pounds in 1967.

6. Cash receipts from milk sales increased from \$5,037 million in 1965 to \$5,532 million in 1966 to \$5,770 million in 1967.

7. Per capita consumption from <u>commercial sources</u> declined from 561 pounds in 1966 to 533 pounds in 1967.

As we think about these several facts, I believe we have cause to wonder whether price, income, and supply are the critical problems as compared to the increasingly depressing commercial demand situation confronting us. And if we accept the premise that price is the primary factor affecting changes in demand, and that the dairy price support program has a direct and major effect on dairy prices, then we must recognize that the support program must indeed be severely damaging the commercial milk market. Let us direct some detailed attention to the support program then, and see where these prices which apparently affect demand come from. Where does the current \$4.28 support price come from? The following four step procedure indicates the calculations used for establishing the support price for manufacturing grade milk testing at the national average butterfat test.

(1) \$4.33 (1958-67 average farm milk price) ÷ 250 (1958-67 index of prices received) = \$1.73 (adjusted base price)

(2) \$1.73 x 350 (current index of prices paid) = \$6.06 (parity price for all milk wholesale)

(3) \$6.06 x 79 pct. (ratio of mfg. milk price / all milk wholesale = \$4.79 (parity price equivalent for manufacturing milk)

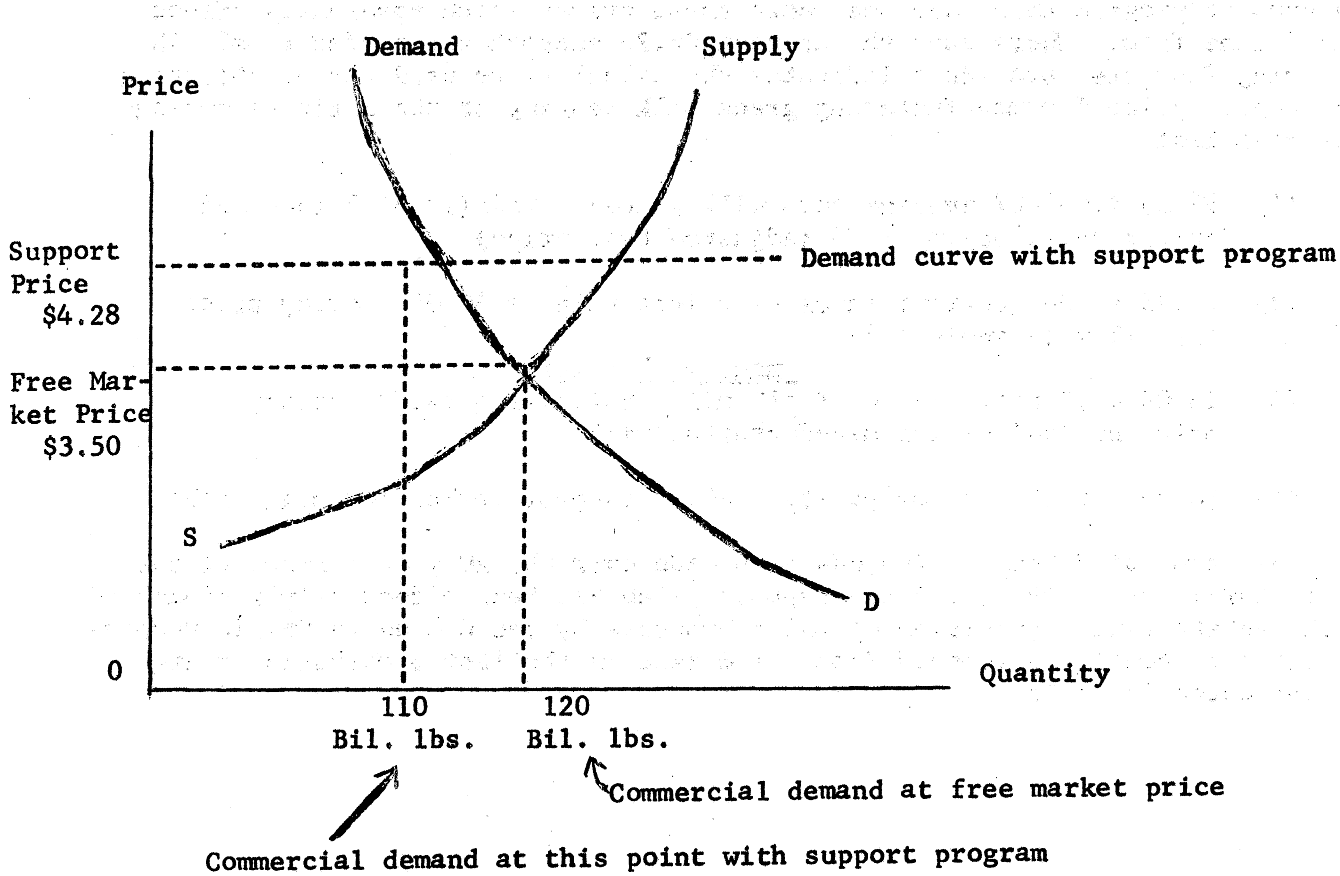
(4) \$4.79 x 89.4 pct. of parity = \$4.28 (support price for mfg. milk)

This type of determination has been made over the 20 year history of the Agricultural Act of 1949, and the support price has been effectively implemented by the substantial acquisition of dairy products by the Commodity Credit Corporation. The quantities removed from the market in the last 8 marketing years are indicated in Table 1.

TABLE 1. CCC Purchases of Dairy Products, 1960-1968

Marketing Year	Milk Equivalent Purchased	Amount Removed as Percent of Total Marketings	
		Milkfat	Solids-not-fat
1960-61	3.3 bil. lbs.	3.0 pct.	8.6 pct.
1961-62	11.2	9.5	13.3
1962-63	8.8	7.5	13.2
1963-64	7.5	6.4	11.9
1964-65	8.2	6.9	12.2
1965-66	2.9	2.6	8.7
1966-67	2.7	2.5	4.3
1967-68	7.0	6.2	6.9

Without attempting to estimate the specific effects on price of the dairy support program, we can illustrate the approximate effects on price, demand, and supply in a simple supply-demand diagram.



As the diagram attempts to indicate, the manufacturing milk price without a support program might find its level at around \$3.50 per cwt. At this price, the commercial market might absorb 120 billion pounds of milk. However, with the support program establishing prices at \$4.28 through the purchasing program (which makes the demand curve perfectly elastic at the support level), the price effect on demand might reduce commercial demand from 120 billion pounds down to 110 billion pounds. It is this type of price effect which I think we must get concerned with in the weakening demand situation.

While the support program is implemented through the purchase of butter, cheese, and nonfat dry milk, we know that the effects, including price, extend to the fluid milk markets with which we are primarily concerned. This is so because the respective values of butterfat and skimmilk in fluid milk are determined <u>directly</u> by the Chicago 92 score butter price, which has been determined almost wholly in recent years on the support price for butter.

For example, the butterfat differential in Class I milk in the Federal order markets in Ohio is calculated at 12 percent of the Chicago butter price. Once the butterfat differential is determined, and the Class I price has been established, the values of butterfat and skimmilk are automatically defined. Our August announcements for the Columbus market showed a \$6.25 Class I price and an 8 cent butterfat differential, which automatically priced butterfat at 83.45 cents per pound and skimmilk at 3.45 cents per pound. So, the butterfat differential which is a function of the Chicago butter price, which is a function of the U.S. support price, actually determines the values of butterfat, and thus of skimmilk, in Class I milk.

This situation hits us pretty directly when we talk about substitutes and their effect on demand.

Let me attempt to illustrate. For vegetable oils, the supply-demand pricing we see there can be accepted as a reflection of production costs and market values. But for butterfat, the story is substantially different. The values of butterfat used in Class I milk in our fluid milk markets are almost universally a function of the 92 score wholesale butter price at Chicago. The Chicago butter price, in turn, for the past two decades, has been almost completely determined by the butter prices established under the U.S. dairy support program. For example, in 1967, the Commodity Credit Corporation purchased 259 million pounds of butter, or 21 percent of all of the butter manufactured in the U.S. last year. The market price and the support price were, therefore, essentially identical. The question that we as a dairy industry must increasingly concern ourselves with, then, is whether we can afford to accept values for butterfat, and in turn skimmilk, which are based upon a support program pursuing price-income objectives, but which are unrelated to actual market values for the butterfat and skimmilk, or solids-not-fat. I think that this question gets at the core of our total demand problem and at the substitution problem.

As indicated previously, the support program is implemented by buying butter, cheese, and powder. Current purchase prices for these products are -- butter, 67¼ cents per pound; cheese, 47.0 cents per pound; and nonfat dry milk, 23.1 cents per pound. The question we are pointing to here as we continue to review the effects of the support price on demand is how is the $4.28 support price for producer milk translated into these purchase prices. The procedure for cheese, using approximate values, is as follows:

(1) $4.28 support price
plus
.70 (marketing margin per cwt. of milk for cheddar cheese)
$4.98

(2) $4.98
minus
.15 (whey fat value/cwt. of milk)
$4.83

(3) $4.83 ÷ 10.3 (cheese yield/cwt. of milk)

= 47 cents (purchase price for cheese)

Comparable procedures are used for establishing the purchase prices for butter and powder.

As we gain an understanding of the impact of the support program on milk prices, it is desirable to review the demand situation in some detail to see why we should be concerned about what form the dairy program takes.

On a per capita basis, the commercial demand for dairy products dropped from 731 pounds milk equivalent in 1950 to 566 pounds in 1967--a decrease of 22.5 percent. While various individual dairy products, including low fat milk, cheese, ice milk, and nonfat dry milk have shown remarkable growth during this period, the net effect of market trends for all products reflects a substantial weakening of demand. Per capita consumption of butterfat dropped from 29.3 pounds in 1950 to 21.5 pounds in 1967--minus 27 percent. Per capita consumption of milk solids-not-fat dropped from 43.6 pounds to 39.8 pounds during the same period--minus 8.7 percent.

While substitution is a major factor in this less than desirable demand picture, it is not the sole factor. Direct price effects as well as cross price effects have been involved. Also, nutritional considerations and other less well defined aspects of our society's changing tastes and preferences have been influential.

What has been the specific impact of substitutes? In 1950, butter, the No. 2 user of milkfat, accounted for 60 percent of the spread market. In 1967, margarine accounted for 68 percent of the spread market. Per capita consumption of butter trailed margarine by 5.0 pounds to 10.5 pounds last year. And at the same time, per capita consumption of all food fats hit a record high of 48.7 pounds in 1967.

In the Class I pricing category, cream has been particularly vulnerable to substitution. Per capita cream consumption dropped from 11.1 pounds in 1950 to 6.8 pounds in 1967--minus 39 percent. It has recently been estimated that non-dairy whipped toppings now account for 80 percent of the whipping cream market, and non-dairy coffee whiteners are now accounting for 35 percent of the coffee cream market.

The manufacture and sale of mellorine in fourteen states adds another dimension to this substitution phenomenon.

And now the fluid milk market--a 60 billion pound annual market--50 percent of U.S. milk utilization--seems to be fair game for substitution. In June of this year, 72 handlers in 27 Federal order markets sold 4.6 million pounds of filled milk--about 0.4 percent of Class I sales in those markets. At the same time, synthetic milks were being sold in ten markets by 15 handlers.

In the Central Arizona market, filled milk sales were recently reported at nearly 10 percent of all Class I sales, while in Hawaii, imitation milks were recently reported to account for 20.4 percent of Class I sales.

And the list grows. A recent publication of a vegetable oil company advanced formulas for thirteen imitation dairy products--from sour dressings through egg nog drinks.

So I think we can finally agree that the dairy price support program affects milk prices, and that a program that affects price affects demand. Demand is usually agreed to be a function of price, income, prices of substitutes, tastes and preferences, advertising, and less definable variables. Price is probably the key variable here, and it is also probably more vulnerable to adjustment or influence by the dairy industry than any of the other variables. So if we are really concerned about demand, and since the support program obviously affects demand through price, and since the support program can be changed through education and legislation to meet this problem, what are the alternatives we can turn to which will serve our price-income objectives <u>without</u> aggravating the demand problem?

Since I obviously have a suggestion to advance on this, we need not spend time on many alternatives other than to say that there are enough possibilities to go on designing them indefinitely. However, we might say that it is pointless to talk ablut mandatory or voluntary base programs in this problem context because base programs are not going to let prices find their market levels, and therefore demand would continue to be eroded. And as for the free market, such an arrangement without compensatory income arrangements is strictly academic. Could the dairy industry stand the shock--at least in the short run?

And so we turn to direct payments. I just want to suggest a couple of options about direct payments. Of course, the direct payments program implies that the market price is going to find its own level. And if the market price finds its own level, we would see a significant demand response. And if this is important to you, then I think this thing is worth looking into. Shepherd suggests a couple of differnet ways that it can be approached.4/ One is the

4/ Shepherd, G.S., op. cit., p. 159-172.

direct commodity payment where price standards would be announced as an income goal. Then let's say that for the year the price averaged 50¢ under that, e.g., a market price of $3.80 vs. an announced goal of $4.30. Every farmer would then receive a 50 cent direct payment per cwt. Now this can get pretty costly. At 50 cents/cwt. on 115 billion pounds of milk sold, it runs somewhere over $500 million. But our current purchase program in some years has run over $600 million. If this payment happened to get up above $500 million by any significant amount you might as well forget it, because the Federal budget probably isn't going to begin to stand the kind of stresses that are implied there. But it does get at market pricing. The direct payment program on a commodity payment basis could also be operated in terms of processors similar to the program in Canada where, essentially, for every one pound of butter that a processor turned out, he received a 12 cent subsidy from the government. This recognized the fact that the price could be passed on back to the dairy farmers. And the lower consumer price it brought about was a factor in relieving the demand situation.

The second option in direct payments is that of the direct income payment. By this method, as an example, the dairy farmer's income goal could be set at not less than his recent five year average income. Suppose a producer averaged $10,000 annual income in the 1964-1968 period, and then, no longer having a dairy price support program, his 1969 income dropped to $9,000. The plan would provide him with a direct income payment amounting to the $1,000 difference.

Again, of course, the market price finds its own level and we see the demand response that may be very fundamental to the dairy industry in the next 10 years and in the next 20 years. I think that these kind of things are worth thinking about and worth talking about so that we don't on a day-to-day, and month-to-month, and year-to-year basis lock ourselves into a situation that we're going to find completely inescapable in a few years.

CURRENT STATUS OF STANDBY POOL

Walter Wajse
Economist
Twin City Milk Producers Association

First of all, I want to thank you for the invitation to appear on your program here this afternoon. I think it is good that we occasionally have people from outside our home territory to come in and discuss problems and opportunities for the dairy farmer. I think in this manner we may get fresh ideas or new slants on the issues at hand which we may not get in our day to day conversations with people in our home territory.

I also want to commend the dairymen in this state for holding this joint seminar with the Farm Bureau Federation. I think this gives our farm organizations an opportunity to "check signals" with the leaders of dairy cooperatives so that we can make uniform approaches to our problems as we go down the road seeking to improve the economic position of dairy farmers.

The subject which I have been asked to discuss with you today is "<u>The Current Status of the Standby Pool</u>."

I think before I get into the <u>current</u> status of the Standby Pool, it is important to briefly review the situation which led to the origin of the Standby Pool.

Historically, during the short-supply season each year, markets in the South and other parts of the country have called upon substantial unregulated supplies of Grade A milk in Minnesota, Wisconsin, and Iowa to "tide them over" until their local production was again sufficient to meet their local market needs. In the past, those markets assumed no further responsibility for these unregulated supplies of Grade A milk until they needed milk in the next short season. This Grade A milk in Minnesota, Wisconsin, and Iowa served as a reserve supply for those markets when needed but was a surplus supply of Grade A milk which had a depressing effect on the level of negotiated Class I prices in Midwest markets -- Chicago, Milwaukee, Minneapolis-St. Paul -- during the balance of the year. Since there is a need for price alignment among regulated markets, a lower price in Midwest markets can result in lower levels of Class I prices in most other markets across the country.

So, as a good example of what cooperatives can do by working together, Associated Dairymen, Inc. members acted on their own and put the Reserve Standby Pool Plan into effect September 1, 1967.

The objective of the Standby Pool is to create a climate for the orderly marketing of Class I milk in deficit areas. These areas are assured of an ample supply of fluid milk and the Midwest producers are assured of sharing in Class I markets.

The economic justification for the Standby Pool is based on the belief that systematic scheduling of milk shipments into deficit areas will add to efficiencies and at the same time reserve plants can better plan and execute their manufacturing operations.

Associated Dairymen member cooperatives agreed to pay into a fund as much as five cents per hundredweight on their Class I sales. There are other cooperatives who are not members of Associated but who are financially supporting the Reserve Standby Pool. Cooperatives paying into the fund are called contributing plants and collectively represent approximately 700 million pounds of Class I sales each month in Federal Order regulated markets.

Although the contributing plants have agreed to pay as much as five cents per hundredweight on Class I sales, so far a contribution of two cents per hundredweight has been adequate to carry present reserve supplies. The fund pays to each Reserve Standby Pool plant so much per hundredweight on all their Grade A producer receipts. The Reserve Standby plant, in turn, agrees to hold all its Grade A milk "on call" as a reserve supply for Associated Dairymen, Inc. In this way, the reserve pool milk shares, to some degree, in all Class I sales in all markets represented by Associated Dairymen. In turn, these markets are assured of a dependable, year-around reserve supply of Grade A milk. Approximately 70 million pounds of Grade A milk per month is carried in reserve plants. These plants are required to meet essentially the same Grade A standards as plants which are shipping to regulated markets.

The plan has been operating as well or better than expected, but the Reserve Pool hasn't, by any means, solved all problems. There are some cooperatives selling into Federal Order markets who are reaping the benefit of higher Class prices, but as yet have not agreed to contribute to the support of the Reserve supplies.

One of the problems encountered has been the rate of payment to the Standby plants. The plan originally called for payments which would permit the Standby plants to pay somewhat comparable prices to their producers as those being paid to producers shipping to a regulated market. A schedule was set up whereby the Standby plants would receive 20 cents per hundredweight for eight months out of the year and 10 cents per hundredweight during four months. Shortly after the plan was put into operation, it was discovered that this type of reserve payment schedule was resulting in misalignment of producer prices because of the greater fluctuation of the uniform blend prices in Federal Order markets surrounding the Standby plants. The schedule of payments was then changed to a formula system taking into account the blend price received by producers shipping to a regulated market and the level of the Minnesota-Wisconsin manufacturing price series.

Another problem which exists to some extent is that the Standby plants are located in a wide geographic area in Minnesota and Wisconsin. Historically, these plants have had varying levels of producer prices depending upon their individual operations and types of markets which they had access to. Yet, the Standby plan provides for uniform payments to all the plants. Perhaps in the future this can be changed by some type of zoning arrangement taking into consideration the location of the plants involved and their historic level of producer prices.

So, basically, this is a brief rundown on how the Standby Pool operates and its current status.

I think it might be well to take a few minutes to look at what the future might be for the Standby Pool.

Hopefully, in the near future the Standby Pool will be operated under the Marketing Agreement Act, similar to our present Federal Order program. This may lend more stability to the program and eliminate some of the questions which have been raised concerning the present arrangement.

I think that in the future the Standby Pool may well provide a greater function than at the present time. At the present time, the two states of Minnesota and Wisconsin produce one-half of all the Manufacturing Grade milk in the United States, 18 billion pounds. This milk is slowly being converted to Grade A and possibly within five years will be all Grade A as we move closer to one grade of milk.

Under past marketing experiences, the new Grade A production will naturally be seeking a fluid market. This milk will surely share in fluid sales in one way or another, either by lower prices or some type of pooling arrangement such as the Standby Pool. Therefore, it is important that the decision-making leaders of the dairy industry recognize that dairy farmers presently supplying fluid markets across the country will have to share, to some degree, with the supply of milk which has no fluid market.

In view of these facts, I can visualize that all of the Grade A milk not under a Federal Order will be carried by the Standby Pool, and farmers shipping to regulated markets will contribute to the pool. As cooperatives continue to merge into larger organizations and as Federal Orders merge into larger orders which cover wider geographic areas, it will become much easier to repool funds and permit all farmers to share equitably in fluid markets.

Whether the Standby Pool continues or not, I think it will stand as one of the most significant events in dairy marketing in that it has shown that farmers from different parts of the country can work together and can find solutions to common problems.

In order to maximize returns to farmers, we must continue to look ahead and seek new innovations in marketing techniques, supply management, advertising, and quality and types of products. Cooperatives need the loyal support of each individual farmer and farm organizations and there must be full cooperation and unity of purpose among cooperatives if we are to be strong enough to have a dominant voice and influence the factors of milk marketing which affect future returns to dairy farmers.

COMMENT ABOUT THE STAND-BY POOL IN OHIO MARKETS

Leslie C. Mapp
Manager
Miami Valley Milk Producers Association

We believe that the stand-by pool has made a lot of progress during the relatively short time it has been in operation. Those of us in this area are particularly interested in the stand-by pool in order to insulate our markets against the supply of Minnesota and Wisconsin milk except when a supply is needed in our markets. We are concerned that in pricing the milk to the plants and producers who are part of the stand-by pool, that the price be at such a level that it does not encourage excessive production that could haunt us. We have heard some remarks made by competing plants of the stand-by pool that the price paid by stand-by plants is sufficiently higher that it attracts milk from the other plants.

We are wondering whether the stand-by pool will work effectively in periods of heavy milk production nationally. The present plan has been proven in a period of relatively short milk production nationally and perhaps this is a better time to put in operation and expand it to more plants to protect against the day of more heavy production.

Presently the milk received by the stand-by plants is a rather small part of the total surplus Grade A milk in Wisconsin and Minnesota and it would seem that more plants must be covered in order to be effective in the future. The participation of Great Lakes Milk Marketing Federation in this plan would almost double the volume of milk being assessed for the support of the stand-by pool.

In the Indianapolis market, a large number of milk producers are shipping milk direct from Wisconsin and are associated with the pool in the same way as local producers. The stand-by pool cannot necessarily cope fully with this situation but could be helpful in preventing further producers being associated with the Indianapolis market.

We do not think the stand-by pool is a panacea, but another facet of milk marketing which we in Great Lakes must study thoroughly in the next few months.

CONTROLLING MARKET MILK SUPPLIES THROUGH HAULING PROGRAMS

Donald E. Zehr
Manager
Central Ohio Cooperative Milk Producers Association

How, through greater participation in farm to market movement of milk, can Ohio dairy cooperatives render greater service and improve their bargaining position in their markets?

The controlling and coordinating of milk hauling becomes mandatory when distances between larger milk plants increase. In recent years, the transportation of milk to the plant has become more and more an important function to the milk producer, and in turn the responsibility is shifted to his cooperative. Along with the responsibility for transportation, the cooperatives are assuming the day to day equalization of the needs of the market. Consequently, the cooperative is playing a significant role in acquiring milk, developing economical and efficient routes, and assigning milk producers to the various routes. Furthermore, processors are gradually discontinuing the practice of acquiring milk supplies or maintaining a field staff to acquire milk or do quality control. This latter function is also being assumed by the cooperative.

The control of the farm-to-plant assembly and ultimately the control of the total milk supply in a market is the primary ingredient to establishment of a maximum bargaining power position for Ohio dairymen. The basic link in the power position is the extent to which the assembling and transportation can be controlled in the market.

All major milk markets except one in Ohio are supplied by both member and nonmember farms on the pickup routes. In all markets, 73 to 89 percent of the producers on the pickup routes were members of the cooperatives in the market. In general, therefore, the dairy cooperatives did control the majority of the milk supplying the market. Slightly more than 40 percent of the farm pickup routes servicing the markets picked up milk from cooperative members only. Nearly one-half of all farm routes picked up milk on an every-other-day basis. Many of the routes listed as every-day routes were actually every-other-day routes in which some farmers requested temporary every-day service when their milk supply flushed up.

The current Ohio farm assembly system is not uniform in its treatment of producers, haulers, or processors with respect to hauling arrangements. The control of milk under present arrangements does not give maximum bargaining opportunity to the dairy farmer. The development of a standard farm assembly system, along with a centralized plan of hauling, could provide a stronger bargaining position for the cooperative. A majority rule concept among the cooperatives <u>in a market</u> could further assure the total supply through the direction of farm pickup and other services to handlers.

A standard farm pickup system would control milk supply, therefore, would require: (1) 100% membership or 100% agreement of producers on each route, (2) written agreements with all independent haulers, (3) some cooperative tankers to help enforce agreements, (4) no company tankers picking up from farms, and (5) a fully supply arrangement with the milk processors.

The nonmember in a market cannot be outwardly forced to join the association. Therefore, some type of nonmember agreement is needed or some means of getting his cooperation is required, unless the nonmember wishes to provide his own marketing program.

Milk haulers prefer to act as independent businessmen with milk producers. Thus cooperative hauling arrangements which are needed are sometimes difficult to obtain.

The standard farm pickup system would need to follow three general rules:

(1) The coordinating of all farm pickup in one market area would be made by one centralized cooperative agency with all producers in a Federal Order marketing area being assigned by one agency.

(2) All independent haulers would be contracted to the centralized agency and load assignments would be made by this agency to the various plants.

(3) The nonmember would become a member or make some agreement with the centralized agency.

The implementation of a uniform standard system calls for a centralized cooperative management of milk supplies. Under present circumstances, the market power of the cooperatives, along with sufficient control devices, and the substantial quantities of milk available in most areas, there is little incentive for fluid milk processors to compete for milk supplies. They can obtain all they want at the present price, and turn the complete procurement job over to a cooperative. They thus gain the improved efficiency and the decreased cost of a centralized management.

As a case in point, in an Oklahoma metropolitan milk market, there has been an increasing tendency to consider the related functions of farm quality control, procurement, assembly, and surplus management as the responsibility of the producers' cooperative.

The coordination of the market supply function into a single agency was recommended in the Oklahoma study, which stressed the tendency for such a system to reduce the severity of fluctuations when compared to an individual handler's requirement for milk supply. Although the study's conclusions refer to the cost of milk collection, it was evident that the overlap of farm assembly was lessened by the coordinated system. Farm assembly control by the single agency can significantly strengthen the bargaining position. The lessening of the degree of variability and uncertainty can establish the following benefits in farm assembly; handling excess or reserve supply situations; controlling out-of-market movement of milk, efficiency of procurement, lower receiving costs to processors, surplus disposal, and bargaining between participants.

A standard farm assembly system would therefore be implemented by the cooperative which becomes the single agency to coordinate these market functions. The cooperative would immediately provide leadership to the market for the producers milk as authorized in the membership agreement. The cooperative would move immediately to provide uniform agreements with the milk haulers and be prepared to enforce the agreement with reference to producer assignments and plant assignments.

The milk processors in most markets could be appraised of the effectiveness of this system. With proper assurance of the validity of the single agency coordinated supply system, they would comply with the attempt to improve the system. Undoubtedly some resistance could be expected by some processors who may now be outside the influence of the major cooperative in the market area. The fear of a stronger bargaining position by the dairymen could be a deterring factor to full cooperation by the processors. Thus, the farm assembly control could bring that point into proper focus immediately if the direct-off-the-farm supply of milk is delivered to the plant only by the cooperative.

In summary, therefore, it seems evident that in the eleven Ohio milk markets, the cooperatives could provide a positive answer to the three hypotheses in this paper, namely:

1. That the bargaining power position of the Ohio fluid milk farmers could be substantially enhanced by the milk marketing cooperatives if the farm assembly system was tightly controlled by the cooperatives.

2. That the cooperatives working together in a majority rule concept in each market within a procurement area would provide effective bargaining for price and other terms of sale.

3. That the uniform or standard farm assembly system could provide for less overlapping of assembly and decrease the duplication of other services closely associated with assembly.

Recommendations

In order to resolve the problem with which we are concerned in this discussion, "How, through greater participation in farm to market movement of milk, can Ohio dairy cooperatives render and improve the bargaining position of their members?", the following recommendations are advanced:

1. Provide a standard farm assembly system which would establish the control of the farm to plant transportation in the hands of the dairy farmer through his authorized milk marketing cooperative. Develop a workable farm assembly system by cooperative owned and operated routes or by independent contract haulers under contract to the association. This standard system would establish agreements between the cooperative and the farmer and would establish agreements with those nonmembers who are outside the system by a marketing agreement with the cooperative. It would establish agreements between the cooperative and the farm assembly operator; and it would establish full supply contracts with the companies in the regulated area.

2. Provide that each authorized milk marketing cooperative attempt a membership relations program to get a more complete understanding of the membership agreement between the farmer and the cooperative. Strengthen those terms within the agreement which provide for sole and exclusive rights of the cooperative to market the milk, the right to assign the member to a route, and the right to provide for or arrange for the farm assembly system.

3. Provide a suitable hauling agreement between the independent contract hauler and the cooperative. The contract should provide for the cooperative to direct the assignment of all members and provide for nonmember transportation only after a nonmember marketing agreement is signed by the nonmember dairyman.

4. Establish a centralized market supply management system with all participating cooperatives in the market procurement area to further provide a complete supply-equalization function for the cooperatives serving the regulated area. A majority rule concept would be developed in each market.

5. Have the cooperatives provide the administrative and financial support for the centralized market supply management system. The services rendered by the majority cooperative would be supported with special concern to bargaining for price and other terms of sale with the milk companies.

ADJUSTING FEDERAL MILK ORDER MARKET AREAS WITH SPECIAL REFERENCE TO MARKETS IN AND NEAR OHIO [1/]

David G. Hahn
Department of Agricultural Economics and
Rural Sociology
The Ohio State University

The boundaries of relevant markets continually change as the size and mobility of our population increases and as transportation systems improve. Many instances can be cited in which two or more markets were separate entities just a few years ago but now have contiguous borders.

How is a "market" defined? With respect to milk, the United States Department of Agriculture historically had adhered to two criteria in the definition of a marketing area. These include 1) all of an area where the same milk dealers compete with each other for sales of milk, in association with 2) the area where such milk must meet essentially the same sanitary inspection standards.

Over time, an intensification of various market relationships among fluid milk markets, both in procurement and distribution, has been taking place. Some of these changes may be set forth as follows:

1. Substantially increased mobility of fluid milk, both in bulk and packaged form, on a highly efficient basis.

2. Increasing concentration of the fluid milk industry in terms of large volume automated processing centers, together with business operations on a multi-plant, multi-market basis.

3. Closer and more formal relationships among milk marketing cooperatives as they strive toward a more effective bargaining base.

4. Expanded and over-lapping milkshed areas caused by reduced production in some supply areas together with increased demands in metropolitan milk markets.

5. Continued de-emphasis of local Grade A health ordinances as barriers to milk movement.

6. High proportion of fluid milk being sold through supermarket chain stores, with resulting implications in private labeling and brand indifference, intense competition for wholesale accounts, and vertically integrated processor-distributors.

All of these changes have served to substantially expand the areas in which many handlers distribute milk. Along with these changes, we have seen

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[1/] This paper is based on information obtained from our current research project, SS-161.

Federal order consolidation. In the last 5 years, 18 markets have merged to form 8 new markets, and 24 markets have expanded to include formerly unregulated areas.

Three major questions regarding marketing area criteria and definition have arisen out of this new environment.

1. Do the present criteria for marketing area definition adequately encompass the relevant factors which must be recognized in implementing an orderly market?

2. What ultimate geographic limits in defining marketing areas appear to be desirable as the adjustment to regional marketing areas becomes more and more evident?

A third question, and perhaps the most relevant one for our discussion is as follows:

> In a region such as Ohio and immediately surrounding areas, where several Federal order milk markets are in close and constant relationship, what do the relevant criteria recommend in terms of defining an optimum marketing area(s)?

To find the answers to these questions, several market area criteria were evaluated as to their relevance in formulating marketing areas. The standard criteria of 1) competing sales area and 2) uniform sanitary standards were considered together with 3) procurement area relationships. In addition, criteria of 4) acceptance and support by cooperatives, 5) general market organization, and 6) concentration of Class II product processing and distribution were related to the marketing area problem.

The question of pricing arrangements essential to the movement of milk within large marketing areas were not analyzed as a part of this study. The relationship of milk pricing is another study within itself.

The U.S. Department of Agriculture historically has added to the marketing area of a Federal milk order by 1) adding unregulated adjacent areas to the marketing area, and/or 2) consolidating the marketing areas of two or more Federal orders in which marketing area criteria indicate the desirability of such consolidation.

It now appears that, in some instances, a third alternative should be available for market area expansion. This alternative would be one in which a portion of a regulated area would be transferred to another Federal order market. The rationale for doing this in a given situation would be that milk marketing conditions and relationships changed so much since the earlier marketing area formulation that, in the meantime, the particular marketing area portion under review had developed much closer relationships with another Federal order market. For example, over time, in a Federal order market with a sizeable marketing area, the eastern half of the market may have developed closer relationships with markets further to the east, while the western half of the market had developed relationships to the west. Conditions can change as much within as between marketing areas, so that this alternative takes on additional importance.

What is the current Federal milk order market situation in Ohio? On July 1, 1968, three Federal order milk markets primarily associated with Ohio, i.e., Northeastern Ohio, Greater Youngstown-Warren, and Greater Wheeling, were consolidated as one market. At the same time, additional marketing areas primarily in Western Pennsylvania (Pittsburgh and Erie) were amended to this consolidation. Prior to this market consolidation and expansion, eight separate Federal order milk markets, Tri-State, Northwestern Ohio, Columbus, Miami Valley, and Cincinnati, in addition to these three have had either all or most of their marketing areas located within Ohio. With this concentration of Federal order markets located in such a limited geographic area, relationships among these markets, both in procurement and distribution have been very intense.

Investigation of Federal order markets in Ohio revealed the following information about the six market area criteria:

1. Competing Sales Area

Several markets were examined to determine the degree of sales area competition that exists in Ohio. The Columbus market, for example, contains the major portion of 11 counties. Milk is distributed to 5 other markets from the Columbus market. On the other hand, milk from 5 outside markets flows into the Columbus market. The Cincinnati market, which contains four counties in the southwestern Ohio, and 6 counties in Kentucky, accounts for sales in 8 other markets. Milk comes in to that market from 5 other markets. The Miami Valley market accounts for sales in 5 other markets, while 4 outside markets supply milk to that market. In Northwestern Ohio, milk comes in from 6 outside markets with milk being supplied to 4 outside markets.

We see that encompassment of sales areas is an important criterion.

2. Uniform Sanitary Standards

These standards no longer pose a serious problem. A major reason has been the widespread adoption of the U.S. Public Health Service's recommendations. In addition, Ohio and West Virginia have reciprocity agreements. Ohio does not have reciprocity agreements with Pennsylvania, but many Ohio producers and a number of Ohio plants meet Pennsylvania standards. Uniform sanitary standards are not a problem between Ohio and Michigan, Indiana, or Kentucky.

3. Procurement Area

The procurement criterion only becomes of specific importance where there is significant milkshed overlap with potentially unstabilizing differences in producer pay prices. In such a situation, procurement necessarily becomes a relevant consideration for market consolidation or for some extensive integration of Federal order provisions among the relevant markets.

Milk production in Ohio and the surrounding states has decreased during the past five years which means that competition has intensified between markets for milk produced in the region. A look at the Ohio market reveals:

a. Procurement area for the Columbus market contains 36 of Ohio's 88 counties.

b. Procurement area for the Miami Valley market contains 24 counties in Ohio and 8 in Indiana.

c. Procurement area in the Cincinnati market contains 35 counties in Ohio; 34 in Indiana; 19 in Kentucky; 2 in Wisconsin; and 1 in Illinois.

d. Procurement area for the Northwestern, Ohio market contains 30 counties in Ohio; 8 each in Indiana and Michigan.

e. Procurement area for the Tri-State market contains 27 counties in Ohio; 19 in West Virginia; 17 in Kentucky; and 1 in Pennsylvania.

f. Procurement area for the Northeastern, Ohio market contains 45 counties in Ohio; 18 in Indiana; 8 in Pennsylvania; and 4 in Michigan.

Producers in Mercer County, Ohio, ship to 7 different Federal order markets. On a larger scale, the Tri-State market procures milk in 13 of the same counties as Columbus, 11 of the same counties as Cincinnati, and 7 of the same counties as Miami Valley.

It is apparent that several of the markets are inextricably related to one another in procurement.

4. Acceptance by Cooperatives

To examine this criterion, management of 13 milk cooperatives were interviewed concerning: a) the objectives of their organization and b) their considerations and reactions to the expansion and consolidation of market areas. The results of these interviews indicated that the criteria of general market organization and Class II processing and distribution were very important considerations. These results were interesting in that little attention has been given historically to these criteria. Generally, management of these coops agreed that expansion through consolidation is needed.

5. General Market Organization

For this criterion, three important elements were evaluated. These elements were: 1) working relations among cooperatives; 2) compatibility of Federal Order provisions; and 3) market organization and structure of the handlers. Concerning the element "working relationships among cooperatives," the Great Lakes Federation is an example of the cooperation that exists among the dairy cooperatives. In 1966, this Federation was comprised of 19 cooperatives, representing 33,000 dairy farmers.

A high degree of interdependence also exists between cooperatives and their respective markets. The individual cooperatives work together to strengthen prices and reduce transportation costs by equating supply with demand.

Federal Order provisions for these markets contain more similarities than differences. All of these orders have market-wide pools and Class I prices based on Minnesota-Wisconsin manufacturing prices. However, each order generally has its own seasonal pay plan which causes differences in Class I prices between these markets.

The element of market organization and structure of handlers reveals a trend to fewer but larger firms. One factor which explains this pronounced change has been the improvement of the highway system in our state. This highway system permits milk to be transported over considerable distances during a relatively short time period.

6. Class II Processing and Distribution

The centralization of Class II products in specialized plants at given locations has resulted in lower Class I utilization in market pools where these plants are located. This problem raises two questions: 1) why should not producers in other major markets in which these products (mostly ice cream and cottage cheese) are sold, share the Class II price problem and 2) why should not distribution areas for Class II products be an important factor for defining a market area.

Grade A milk ingredients must be used in the manufacturing of cottage cheese in Ohio and all major municipal health departments in Ohio (Cleveland, Canton, Akron, Columbus, Toledo, Cincinnati, and Dayton) require Grade A milk ingredients for ice cream.

It was not possible to accurately measure the importance of this criterion because Federal milk marketing order data for these products were not directly comparable between these markets. However, a 15 point spread existed in Class I utilization (65% in Southern Michigan to 80% in Tri-State). Much of this spread is due to ice cream and cottage cheese manufacturing. In the future, this criterion will no doubt be more important than it has been historically.

The results of our research suggest several recommendations. In addition to specific market considerations, two areas of policy recommend themselves for explicit recognition in the Federal milk marketing order program.

1. The Dairy Division, on the basis of evidence, should have and use the additional option of recommending decisions that a part of a marketing area can be transferred to another Federal order market if changing marketing conditions indicate that the prior marketing area decision is no longer appropriate. The currently utilized alternatives of (1) adding unregulated area to the marketing area, and/or (2) consolidating with one or more other Federal order markets are too limiting in some cases as regards marketing area policy. Because of changing marketing conditions, market area decisions made in the past cannot be viewed as sacred. As changes in market area are made to fit present conditions, there must be enough policy flexibility to not only add

unregulated area or recommend market consolidation, but also to reassign portions of a market area to other market orders where public hearing evidence supports such a decision.

2. Further integration and coordination of various provisions among the Federal order markets is recommended. Such action would be desirable, both among markets as presently constituted and among 'regional' markets as they might be developed. Much coordination and improved price alignment has been accompolished in recent years. However, illogical differences in Class I prices and producer prices continue to be significant problems. While market consolidations can resolve some of these problems, there will continue to be a particular need to review and adjust the following differences in pricing provisions and their effects among markets:

   a. Differences in seasonal incentive plans among markets

   b. Differences in Class I prices which have been complicated by the complex of Class I differentials, local supply-demand adjustor schedules, and various standard utilization percentages among the several markets. This factor only holds as an important one if supply-demand adjustors continue to be utilized as they are at present.

It has been the rationale in the past that many of these differences in provisions were due to the 'local' nature of problems in the 'local' markets. But with no such 'local' markets existing in the scope of this market study, it is clear that some reform is needed to eliminate local provisions that aggravate regional problems.

As for the markets involved in this study, there are some obvious and some less obvious market consolidations and adjustments in marketing area that appear to stand out as useful alternatives to pursue. It should be noted that there was sufficient marketing evidence to build almost any kind of case one might want to so far as market consolidations are concerned. In the field interviewing, managers of the milk marketing cooperatives involved were quizzed closely as to their reactions to alternative types of marketing arrangements. The following suggestions in some cases support and in some cases override the opinions of some of the individual managers. More basically, the abundance of marketing evidence provided some relatively clear directions in which to make recommendations. Finally, on the basis of all available information, these suggested directions are judged to be realistic enough to achieve practical consummation.

1. The Northeastern Ohio, Youngstown-Warren, and Wheeling Federal order markets have consolidated and become a part of the Eastern Ohio-Western Pennsylvania Federal order market as of July 1, 1968. The evidence gathered in this study strongly endorses the consolidation of these three markets. Because of this recent move, and because marketing evidence does not suggest immediate further adjustments, no additional marketing area recommendation is made <u>directly</u> with respect to the Northeastern Ohio-Western Pennsylvania marketing area.

2. The Cincinnati, Miami Valley, and Columbus Federal order markets should be immediately consolidated as a single Federal order market. Nonregulated areas adjacent to these three current marketing areas should also be defined in the new marketing area as evidence indicates.

3. One of two alternative approaches should be pursued in regard to changes in the Tri-State Federal order market.

a. As a first priority, the Tri-State market should be analyzed in terms of reassigning component parts of the marketing area to different Federal order markets, with the dissolution of the Tri-State market as such being a part of the outcome. Such analysis may indicate that the present marketing area of the Tri-State market does not meet the standards for marketing area delineation as well as alternative marketing area arrangements might effect. If that is the case, present parts of the Tri-State marketing area should be assigned to the Appalachian, Louisville-Lexington-Evansville, Northeastern-Ohio-Western Pennsylvania, and/or the Columbus-Miami Valley-Cincinnati complex as marketing area evidence indicates.

b. As a second priority, the Tri-State Federal order market, as currently constituted, should be consolidated with the Cincinnati, Miami Valley, and Columbus markets. While the second and lower priority alternative would be accomplished much more simply administratively than the former, it would probably not lead to the rather well-defined differences among markets that reassignment of parts of the Tri-State market would permit.

4. The Northwestern Ohio Federal order illustrates another situation where market areas adjacent to it should possibly absorb component parts of the Northwestern Ohio marketing area. However, it is recommended that the Northwestern Ohio marketing area be undisturbed for a period of up to two years, until marketing conditions and relationships become further crystallized. At that time, the marketing situation should be carefully reviewed in terms of the relationships with the South Michigan, Eastern Ohio-Western Pennsylvania, and Columbus-Miami Valley-Cincinnati Federal order markets in particular. The direction of current marketing activities in Northwestern Ohio suggests that ultimate reassignment of the Northwestern Ohio marketing area to these other three market complexes may be a best answer to the several marketing area criteria.

SUMMARY OF DAIRY SEMINAR

S. C. Cashman
Vice President
Commodity Services
The Ohio Farm Bureau Federation

Most farmers want to have a voice in determining the terms of sale of their commodities. Dairy farmers have had more to say about marketing their product than any other commodity group of any consequence. This situation is the result of over 40 years of work on the part of dairymen, first in organizing and next securing some control over the movement of milk from the farm to the handler.

The fact that milk producers are currently in an enviable position does not mean that they can sit back and rest on their laurels. We must continually be searching for ways in which our position can be improved. This is what these Seminars are all about. During these two days, we have concentrated our efforts in the areas of <u>bargaining</u> and <u>public policy</u> -- both critical to the dairy farmer's economic well being in the years ahead.

In the area of bargaining, we looked at several ideas for improving the farmers bargaining strength. These and the comments relative to each follow:

Legislation

We took a look at where we are, what can and cannot be done under present law, and explored possibilities for additional legislation that could strengthen our bargaining position. In this connection a "Farmer-Buyer Relations Act" was proposed which, among other things, would require buyers to recognize the seller, bargain in good faith and permit farmer cooperatives with the majority of producers in a market area to represent all producers in bargaining for price and terms of sale. The government's role would be one of referee.

Although agreement wasn't unanimous, most felt that everything possible should be done to improve our effectiveness with the tools now available without asking government for additional legislation. All favored legislation to amend and extend the Class I base plan indefinitely.

Hauling

There are unlimited opportunities for cutting hauling costs and strengthening the bargaining position of dairymen through the development and adoption of a uniform milk hauling program. It was suggested the OMPF and Great Lakes Milk Producers research the hauling problem and develop a plan for improvement in this area.

Standby Pool

The theory is good and it apparently has a great deal of merit. However, it was agreed that it should be investigated further in terms of what it can do to protect Ohio farmers markets, as well as maintain the price premiums, before action is taken to effect the program in Ohio.

Non-Member Problem

Because of a fairly good demand and supply balance, the non-member situation has not interferred with the ability of cooperatives to obtain prices over and above the Federal order minimums. However, there seems to be a feeling that we need to continue to reduce the proportion of non-members, particularly in the areas where there is a high concentration to avoid future problems. Farm Bureau, in line with its policy, has carried on a membership acquisition program for dairy cooperatives in a few spots in eastern Ohio with some success. Presently, it is working to encourage dairymen who are shipping to Beverly Farms in the Mahoning-Columbiana County area to become members and support a milk marketing cooperative. In the Farm Bureau regional dairy meetings to be held this fall, counties will be given an opportunity to take a look at the non-member problem in their counties and to plan and carry out a program to encourage these non-members to join. This effort will be over and above what the cooperatives themselves are doing to sign up non-members.

National Policy

In the area of national policy, Dr. Jacobson raised a very serious question about our ability to maintain and expand markets for milk under the present government price support program. During our discussion, we concluded that we should keep our present price support program until we had something with which to replace it -- something better than has been proposed to date. Even though per capita consumption is going down, total consumption is about holding its own because of the increase in population. In general, many farmers would rather cut back on production and maintain price rather than sell more milk at a lower price. This is the reason why some dairymen are interested in the Class I base plan. Programs that would permit dairy products to sell at prices that would move all of them into consumption and to make up the difference between the support price and the market price through direct payment route, seemed to have little appeal to those participating in the Seminar.

On the subject of Federal order mergers, it was pretty well agreed that mergers of present orders made sense. Overlapping of procurement and sales under current market order areas is increasing.

As I understand it, the University people will be pulling together the proceedings of this conference, mimeographing and providing copies for the use of all participants. This may be used to follow up on what was done here in our respective organizations. On behalf of the Planning Committee, I would like to take this opportunity to thank all of those who assumed some responsibility for conducting the Seminar. This includes the chairmen of the various sessions, those who made presentations, and those who served as discussion leaders. The success of a conference is dependent not only upon leadership, but upon the interest and participation of those in attendance. I would like to say that the conference was a success and that all of you made it so because of your active support.